

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 FSE-00 ABF-01 DRC-01

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R 071719Z JUN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1082

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 7, 1974

BEGIN SUMMARY: THIS WEEK, STERLING TRADED BETWEEN \$2.3980
(JUNE 3) AND \$2.4090 (JUNE 6) AGAINST THE DOLLAR, CLOSING

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AT \$2.4075 ON THURSDAY (JUNE 7). IN TERMS OF ITS AVERAGE

WEIGHT DEPRECIATION, THE POUND REMAINED STRONG OVER THE WEEK WITH THE LEVEL OF DEVALUATION AT ABOUT 17 PERCENT. GOLD FELL TO \$154.50 ON TUESDAY (JUNE 4) ROSE TO \$163 ON WEDNESDAY, AND FELL BACK AGAIN ON THURSDAY TO CLOSE AT \$159, DOWN \$3 ON LAST THURSDAY'S CLOSE. U.K. OFFICIAL RESERVES FELL BY \$36 MILLION DURING MAY TO STAND AT \$6,920 MILLION AT THE END OF THE MONTH. GROWTH IN INVESTMENT FOR 1974 HAS BEEN REVISED DOWNWARD TO 5 PERCENT IN THE DEPARTMENT OF INDUSTRY'S LATEST SURVEY OF INVESTMENT INTENTIONS. MANUFACTURING INDUSTRY'S CAPITAL EXPENDITURE IN THE FIRST QUARTER WAS ROUGHLY AT THE SAME LEVEL AS IN THE LAST QUARTER OF 1973, BUT UP 8.2 PERCENT OVER FIRST QUARTER 1973. THE LATEST FT SURVEY OF BUSINESS OPINION SHOWS THAT MAJOR U.K. EXPORTERS ARE HIGHLY OPTIMISTIC ABOUT OPPORTUNITIES FOR EXPANDING SALES IN PROFITABLE OVERSEAS MARKETS, BUT CONSUMER CONFIDENCE HAS FALLEN SHARPLY AGAIN. MANUFACTURERS' INVENTORIES OF FINISHED GOODS DECLINED BY 133 MILLION POUNDS IN THE FIRST QUARTER -- A RECORD DECREASE FOR A THREE-MONTH PERIOD. FINAL FIGURES FOR RETAIL SALES IN APRIL SHOW A FALL OF 2-1/4 PERCENT. THERE WAS A SMALL RISE IN THE VOLUME OF NEW CREDIT EXTENDED BY FINANCE HOUSES AND RETAILERS IN APRIL. THE FINANCE HOUSE BASE RATE WAS SHARPLY REDUCED FROM 15 PERCENT TO 13-1/2 PERCENT. THE CLEARING BANKS' LOANS TO PERSONAL BORROWERS IN THE MONTH TO MAY 15 WERE DOWN AND THERE WAS NOT MUCH DEMAND FOR INDUSTRIAL LOANS EITHER. END SUMMARY

1. STERLING MOVED RELATIVELY LITTLE AGAINST THE DOLLAR THIS WEEK, CLOSING ON THURSDAY (JUNE 6) 145 POINTS UP ON LAST THURSDAY'S CLOSE. ON THURSDAY THE AVERAGE WEIGHTED DEPRECIATION AGAINST SMITHSONIAN RATES WIDENED TO 17.23 PERCENT FROM 16.91 PERCENT A WEEK AGO. PARTLY IN REACTION TO SECRETARY SIMON'S SPEECH AND GENERAL UNEASINESS IN THE MARKET, GOLD ROSE \$8.50 ON WEDNESDAY, JUNE 5, BUT FELL BACK ON THURSDAY, JUNE 6, TO \$159.

2. U.K. RESERVES, AFTER PUBLIC SECTOR BORROWING OF \$124, FELL BY \$36 MILLION TO \$6,920 MILLION AT THE END OF MAY. PUBLIC SECTOR BORROWING NOW TOTALS \$4,025 SINCE MARCH 1973. IN STERLING TERMS RESERVES STAND AT 2,888 MIL-
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LION POUNDS, CONVERTED AT THE MAY 31 EXCHANGE RATE.

3. BRITISH INDUSTRY HAS SHARPLY CUT BACK ITS EXPANSION PLANS FOR 1974, ACCORDING TO A SURVEY PUBLISHED ON JUNE 3 BY THE DEPARTMENT OF INDUSTRY. THE DEPARTMENT'S LATEST INQUIRY INTO COMPANIES' CAPITAL EXPENDITURE PROGRAMS SUGGESTS THAT THE RISE IN MANUFACTURING INDUSTRY'S INVESTMENT THIS YEAR WILL BE NO MORE THAN ABOUT 5 PERCENT IN REAL

TERMS, COMPARED WITH THE 12 TO 14 PERCENT FORECAST AT THE BEGINNING OF YEAR. IT WAS HOPED THAT THIS WOULD BE THE YEAR WHEN, AFTER TWO SUCCESSIVE FALLS IN INVESTMENT AND ONLY A SMALL RISE IN 1973, CAPITAL SPENDING IN THE U.K. WOULD RISE DRAMATICALLY.

4. THE LATEST FIGURES FOR CAPITAL EXPENDITURE IN THE FIRST QUARTER SHOW LITTLE CHANGE IN THE MANUFACTURING SECTOR BETWEEN 4TH QUARTER 1973 AND 1ST QUARTER 1974, I.E., 501 MILLION POUNDS VERSUS 504 MILLION POUNDS. COMPARED WITH FIRST QUARTER 1973 (466 MILLION POUNDS) INVESTMENT IN MANUFACTURING ROSE BY 8.2 PERCENT.

5. THE FT MONTHLY SURVEY OF BUSINESS OPINION INDICATES

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UK EXPORTERS ARE HIGHLY OPTIMISTIC ABOUT OPPORTUNITIES FOR EXPANDING SALES IN PROFITABLE OVERSEAS MARKETS. DESPITE THE UNCERTAIN OUTLOOK FOR WORLD TRADE, THEY REGARD EXPORT MARKETS AS IMPORTANT STABILIZING FACTOR TO HELP OFFSET DETERIORATING CONDITIONS IN THE UK HOME MARKET. ON THE DOMESTIC SIDE, THE SURVEY INDICATES NEW ORDERS SLACKENING, UNCLASSIFIED

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PRODUCTION FORECASTS BEING SCALED DOWN, ALONG WITH FORWARD MANAGING REQUIREMENTS AND CAPITAL SPENDING PLANS. PROSPECTS FOR CORPORATE EARNINGS CONTINUE TO DETERIORATE. THE WORST HIT SECTORS ARE CARS AND CONSUMER DURABLES AND THE MOST WORRYING FACTOR CONTINUES TO BE INFLATION.

6. THE BRITISH MARKET RESEARCH BUREAU RECORDS THAT CONSUMER CONFIDENCE DROPPED BACK MARKEDLY IN MAY TO LEVELS REACHED LAST WINTER. THE BIGGEST FACTOR FOR PESSIMISM IS THE EXPECTATION OF STILL MORE DIRECTIONAL FISCAL MEASURES FROM THE CHANCELLOR IN AN AUTUMN BUDGET.

7. FIGURES ON INVENTORIES, SHOWS THAT THE RUN-DOWN IN STOCKS DURING THE PRIOD OF THE THREE-DAY WEEK WAS FAR LESS THAN HAD BEEN THOUGHT AT THE TIME. THE REDUCTION FOR INDUSTRY AS A WHOLE IS ESTIMATED AT 193 MILLION POUNDS (1970 PRICES, S.A.) AND FOR MANUFACTURING INDUSTRY ALONE AT 133 MILLION POUNDS.

8. THE INDEX FOR THE VOLUME OF RETAIL SALES IN APRIL IS NOW PUT AT 107.9 (1971100) COMPARED TO 110.4 IN MARCH. IN FIRST FOUR MONTHS AS A WHOLE, THE VOLUME OF RETAIL SALES WAS ABOUT 1-1/2 PERCENT BELOW THE AVERAGE REACHED IN THE SECOND HALF OF 1973.

9. NEW INSTALIMENT CREDIT BUSINESS WAS AT A LOWER RATE IN APRIL THAN IN THE SAME MONTH LAST YEAR. THERE HAS BEEN A 13 PERCENT FALL BETWEEN NOVEMBER -JANUARY PERIOD AND FEBRUARY-APRIL PERIOD. HOWEVER, NEW CREDIT EXTENDED IN APRIL WAS 197 MILLION POUNDS COMPARED TO 195 MILLION POUNDS IN MARCH. THE CREDIT BUSINESS FIGURES CONFIRM THE IMPRESSION GIVEN BY RETAIL SALES FIGURES THAT CONSUMER DE-

MAND AT PRESENT IS WEAK.

10. THE CUT IN THE FINANCE HOUSE ASSOCIATION BASE RATE FROM 15 PERCENT TO 13-1/2 PERCENT REFLECTS THE DOWNWARD TREND IN LONDON MONEY MARKET INTEREST RATES.

11. DEMAND FOR BANK LOANS IN THE MONTH TO MAY 15 REMAINED SLUGGISH, DESPITE EASING OF MONEY MARKET CONDITIONS AND THE SQUEEZE ON COMPANY LIQUIDITY CAUSED BY INFLATION.
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BORROWING BY MANUFACTURING INDUSTRY AND AGRICULTURE RAISED THE TOTAL LENDING BY THE CLEARING BANKS BY 72 MILLION POUNDS, AFTER SOME REDUCTION IN BORROWING BY PROPERTY AND FINANCIAL COMPANIES AND PERSONAL BORROWERS.

12. FORWARD DISCOUNTS ON STERLING NARROWED AT THE BEGINNING OF THE WEEK BUT WIDENED SLIGHTLY ON WEDNESDAY (JUNE 5) AND THURSDAY (JUNE 6).

	5/30	6/6	CHANGE
1 MONTH	0.37-1/2	0.35	DOWN 0.02-1/2
3 MONTHS	1.82-1/2	1.52	DOWN 0.30-1/2
6 MONTHS	4.76-1/2	4.17	DOWN 0.59-1/2

(ALL FIGURES IN CENTS)

13. LOCAL AUTHORITY DEPOSIT RATES MOVED DOWNWARD OVER THE WEEK.

	5/30	6/6	CHANGE
1 MONTH	12-11/16	12-3/8	DOWN 5/16
3 MONTHS	13-1/16	12-5/8	DOWN 7/16
6 MONTHS	13-3/8	12-7/8	DOWN 1/2

14. EURODOLLAR RATES ROSE AT THE BEGINNING OF THE WEEK BUT THEN FELL BACK TOWARDS THE END OF THE WEEK.

	5/30	6/6	CHANGE
1 MONTH	11-7/8	11-9/16	DOWN 5/16
3 MONTHS	11-7/8	11-3/4	DOWN 1/8
6 MONTHS	11-7/8	11-11/16	DOWN 3/16

15. THE MINIMUM LENDING RATE REMAINED FIXED AT 11-3/4 PERCENT ON FRIDAY, JUNE 7.

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